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TAGS: [ECON](#) [EINV](#) [PREL](#) [PGOV](#) [UZ](#)
SUBJECT: UZBEKS OFFER NEWMONT MINING VERY LITTLE, VERY LATE

REF: 06 TASHKENT 2255

Classified By: AMB. JON R. PURNELL, FOR REASONS 1.4 (B, D)

11. (C) Summary: At the request of Uzbek authorities, Newmont Mining visited Tashkent April 14-16 to discuss a possible out-of-court settlement in connection with their forced departure from Uzbekistan last year. The Uzbeks offered USD 30 million in compensation, far short of what Newmont views as fair value for its lost assets. The Newmont representatives believe the Uzbeks are trying to lay the foundation for an uncontested sale of the Newmont joint venture's assets. The fourth attempt to auction Newmont's assets will occur on May 2. Meanwhile, Newmont has started arbitration proceedings with two international organizations; the Stockholm Chamber of Commerce will hold the first hearing on May 26. End summary.

NEWMONT TALKS WITH THE GOU

12. (C) Two weeks after Newmont Mining filed for arbitration in Stockholm, the GOU asked Newmont to Tashkent to discuss an out-of court resolution. To attract Newmont, the Uzbeks sent a letter offering a large monetary resolution. However, upon arrival, Newmont's representatives were offered much less: USD 30 million (approximately 10 percent of the joint venture's net worth).

13. (C) In defending the paltry amount, GOU officials spouted pseudo-economic justifications, including high costs for restarting the already-existing business, and "asset depreciation" of USD 57 million. The Newmont representatives posited the GOU wants to remove the stigma of Newmont's "expropriation" as it might be "cooking up a deal" to unload the remaining assets for a low price. No legitimate buyer likely will consider bidding unless the dispute is resolved. GOU officials told Newmont that it should accept the 30 million because after the auction it would only get 20 million. The next asset auction is on May 2 and the starting bid remains at USD 140 million. The GOU likely feels pressure to resolve the problems as soon as possible, especially after three earlier auctions failed to attract any bidders. Newmont filed for arbitration with two organizations: the World Bank's International Center for Settlement of Investment Disputes and the Stockholm Chamber of Commerce Court. The first hearing with the Stockholm court is scheduled for May 26. Nixon said Uzbekistan has retained a top-ranking New York law firm.

POTENTIAL BUYERS?

15. (C) Auction regulations state that only companies with current mining licenses may bid. There are three such companies in Uzbekistan, two are state-owned and the third is British-owned Oxus, which last November agreed to sell 16 percent of its company to Swiss-registered Zeromax (reftel). On April 16, Oxus Director Alexander Polikashin told poloff Zeromax finally bought all 16 percent on April 13. Asked about Zeromax's interest in bidding on Newmont's assets, Polikashin said Zeromax has not expressed interest, adding that there is a strong rivalry between Zeromax and the Navoi Metallurgical Combine, a comment heard by poloff from other local businessmen. (Note: Another local contact said she was recently asked to form a job relocation center for Navoi workers, who are "packed and ready to leave." End note.)

16. (C) Comment: With two international arbitration cases on the horizon and only three possible buyers, the government may have backed itself into a corner. If it can settle with Newmont for a sum much lower than 140 million, it will come out ahead: not only will it avoid international arbitration and the resulting stigma, but it will gain complete legal control over the former joint venture. There appears to be little incentive, however, for Newmont to agree to such a deal. The Uzbeks are offering no sweeteners, such as a new contract that would allow Newmont to resume some form of operation here. Under the circumstances, we expect to see arbitration proceed apace, raising the stakes and the pressure on the Uzbek government.

PURNELL